

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its October 2007 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.0% in 2007, 2.0% in 2008, 2.9% in 2009, and 2.8% in 2010;
- U.S. nonfarm employment grows 1.3% in 2007, 0.7% in 2008, 1.2% in 2009, and 1.2% in 2010;
- the annual U.S. civilian unemployment rate remains near 5.0% through 2010;
- consumer inflation is 2.7% in 2007, 1.8% in 2008, 1.8% in 2009, and 1.9% in 2010;
- the current account deficit is \$774 billion in 2007, \$722 billion in 2008, \$706 billion in 2009, and \$732 billion in 2010; and
- the federal unified budget deficit is \$162 billion in 2007, \$261 billion in 2008, \$311 billion in 2009, and \$298 billion in 2010.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 15% probability of occurrence. In this scenario, the fortunate alignment of several positive factors results in a prosperous path for the economy. In this scenario, enhanced productivity results in higher economic and employment gains and lower inflation and budget deficits. In addition, business fixed investment is stronger, peaking at 10.8% of GDP in 2009 versus just 10.5% in the baseline case. Residential investment is also stronger in this scenario, with housing bouncing back stronger in 2008 and maintaining a higher level throughout the forecast period. The main reasons for this success are stronger job growth, lower interest rates, higher consumer confidence, and lower long-term interest rates. Exports benefit from stronger foreign economic growth, and advance quicker than in the baseline case despite a stronger dollar. This scenario also assumes oil prices are \$10.00 to \$10.50 per barrel lower than in the baseline case.

Under these assumptions, the economic outlook is much brighter than in the baseline case. Real output expands by at least 3.0% per year beginning in 2008, compared to under 3.0% in the *Baseline Scenario*. Despite the stronger growth, inflation is actually lower in the *Optimistic Scenario* thanks to the higher productivity. Year-on-year consumer price inflation falls into the middle range of the Federal Reserve's 1%-2% tolerance band and remains there throughout the forecast period, rather than hovering near the upper boundary, as in the baseline case. As a result, inflation shifts to the back burner as an item for the central bank to worry about.

The stronger national economy lifts Idaho's outlook. Idaho nonfarm employment rises faster than in the baseline case in both 2008 and 2009. This stronger growth pushes Idaho nonfarm employment to 696,272 jobs in 2010, which is about 3,000 jobs higher than its baseline counterpart. As the table shows, Idaho goods-producing employment does not slow as deeply in 2008 and advances more strongly in 2009. However, it does grow slower than in the baseline in 2010. In spite of this slower growth, forecasted Idaho goods-producing employment is about 1,000 jobs higher in 2010 than in the baseline. Nongoods-employment growth is consistently higher than its baseline counterpart, and it is about 2,000 jobs higher in 2010. Idaho real personal income is also stronger in 2010, topping its baseline counterpart by just over \$100 million.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

OCTOBER 2007

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
U.S. GDP (BILLIONS)												
Current \$	13,804	14,321	15,020	15,741	13,811	14,447	15,197	15,926	13,785	14,112	14,698	15,438
% Ch	4.6%	3.7%	4.9%	4.8%	4.7%	4.6%	5.2%	4.8%	4.5%	2.4%	4.1%	5.0%
2000 Chain-Weighted	11,542	11,778	12,123	12,460	11,546	11,898	12,332	12,719	11,529	11,602	11,800	12,079
% Ch	2.0%	2.0%	2.9%	2.8%	2.0%	3.0%	3.6%	3.1%	1.8%	0.6%	1.7%	2.4%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	47,235	49,869	52,840	56,363	47,217	49,553	52,406	55,709	47,311	50,385	53,746	57,735
% Ch	7.6%	5.6%	6.0%	6.7%	7.5%	4.9%	5.8%	6.3%	7.7%	6.5%	6.7%	7.4%
U.S. (Billions)	11,695	12,255	12,875	13,550	11,698	12,331	13,009	13,679	11,696	12,171	12,717	13,392
% Ch	6.5%	4.8%	5.1%	5.2%	6.5%	5.4%	5.5%	5.1%	6.5%	4.1%	4.5%	5.3%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,241	41,728	43,453	45,504	40,244	41,730	43,556	45,610	40,285	41,966	43,708	45,770
% Ch	5.1%	3.7%	4.1%	4.7%	5.1%	3.7%	4.4%	4.7%	5.2%	4.2%	4.2%	4.7%
U.S. (Billions)	9,963	10,255	10,588	10,940	9,970	10,385	10,812	11,199	9,959	10,138	10,343	10,617
% Ch	4.0%	2.9%	3.2%	3.3%	4.1%	4.2%	4.1%	3.6%	4.0%	1.8%	2.0%	2.7%
TOTAL NONFARM EMPLOYMENT												
Idaho	650,898	659,784	673,918	693,178	650,901	660,523	676,476	696,272	650,955	658,601	668,777	687,265
% Ch	1.9%	1.4%	2.1%	2.9%	1.9%	1.5%	2.4%	2.9%	1.9%	1.2%	1.5%	2.8%
U.S. (Thousands)	137,919	138,949	140,654	142,375	137,963	139,942	142,437	144,337	137,860	137,936	138,462	139,775
% Ch	1.3%	0.7%	1.2%	1.2%	1.3%	1.4%	1.8%	1.3%	1.2%	0.1%	0.4%	0.9%
GOODS-PRODUCING SECTOR												
Idaho	121,867	116,906	116,156	118,172	121,867	117,575	117,704	119,254	121,755	114,448	110,187	113,080
% Ch	-0.4%	-4.1%	-0.6%	1.7%	-0.4%	-3.5%	0.1%	1.3%	-0.5%	-6.0%	-3.7%	2.6%
U.S. (Thousands)	22,400	21,842	21,654	21,798	22,402	22,009	22,101	22,384	22,399	21,593	20,924	20,810
% Ch	-0.8%	-2.5%	-0.9%	0.7%	-0.8%	-1.8%	0.4%	1.3%	-0.8%	-3.6%	-3.1%	-0.5%
NONGOODS-PRODUCING SECTOR												
Idaho	529,031	542,877	557,761	575,006	529,034	542,948	558,772	577,018	529,200	544,153	558,591	574,185
% Ch	2.4%	2.6%	2.7%	3.1%	2.4%	2.6%	2.9%	3.3%	2.4%	2.8%	2.7%	2.8%
U.S. (Thousands)	115,519	117,108	119,000	120,578	115,561	117,934	120,335	121,953	115,462	116,343	117,538	118,965
% Ch	1.7%	1.4%	1.6%	1.3%	1.7%	2.1%	2.0%	1.3%	1.6%	0.8%	1.0%	1.2%
SELECTED INTEREST RATES												
Federal Funds	5.0%	4.3%	4.6%	4.8%	5.0%	4.3%	4.4%	4.5%	5.0%	4.0%	5.8%	6.0%
Bank Prime	8.1%	7.3%	7.6%	7.8%	8.1%	7.3%	7.4%	7.5%	8.0%	7.0%	8.8%	9.0%
Existing Home Mortgage	6.5%	6.5%	6.8%	7.0%	6.5%	6.3%	6.6%	6.7%	6.7%	7.2%	7.9%	7.9%
INFLATION												
GDP Price Deflator	2.6%	1.7%	1.9%	2.0%	2.6%	1.5%	1.5%	1.6%	2.6%	1.7%	2.4%	2.6%
Personal Cons Deflator	2.4%	1.8%	1.7%	1.9%	2.3%	1.2%	1.3%	1.5%	2.4%	2.2%	2.4%	2.6%
Consumer Price Index	2.7%	1.8%	1.8%	1.9%	2.6%	1.1%	1.4%	1.6%	2.7%	2.3%	2.3%	2.5%

Forecast Begins the THIRD Quarter of 2007

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 30% probability of occurrence. In this scenario the housing recession is deeper than in the baseline case, which drags the economy into a recession. Housing starts drop to 946,000 units in 2008, compared with 1,116,000 units in the baseline. The median existing home price falls more than 10% below the baseline forecast in 2009. The housing weakness leads to a consumer confidence retreat. This contraction, along with the drop in wealth associated falling home prices, causes consumer spending to slow to a crawl. The bleaker outlook causes businesses to scuttle long-term projects. These weaknesses cause the economy to slip into a two-quarter recession that begins in this year's last quarter. But output is not the only thing to suffer declines in the near future. Employment drops for three straight quarters, losing 189,000 jobs from peak to trough. Industrial production falls for four quarters.

The Federal Reserve lowers the federal funds rate to 3.5% in early 2008 in an attempt to revive the flagging economy. In 2008, the productivity slowdown, high energy prices, and a weakening dollar, rekindle inflation. The Federal Reserve hikes rates to head off inflation, but its efforts prove to be too little, too late. Core inflation creeps upwards, then settles at about 3.0%, which is a full point above the baseline level. Inflation is higher in this scenario because of the lower productivity gains and the weaker dollar, and because the central bank decides to live with inflation at 3.0% rather than risk another recession.

Not surprisingly, Idaho's economy in this scenario is weaker than in the *Baseline Scenario*. Idaho nonfarm employment grows slower than in the baseline in each year of the forecast. In fact, growth drops below 2.0% per year in both 2008 and 2009. It does rally to 2.8% in 2010, but never catches up with the baseline. Employment is about 6,000 jobs below the corresponding baseline projection in the terminal year of the forecast. Both the goods- and nongoods-producing sectors perform below par, but the former takes a relatively bigger hit. The former finishes the forecast period with about 13,080 jobs, about 5,100 fewer than in the baseline. There are 574,185 nongoods-producing jobs in 2010, about 900 fewer jobs than in the baseline case. Interestingly, Idaho real personal income is about \$265 million higher in the *Pessimistic Scenario*. This occurs because the lower productivity raises producers' costs, e.g., wages per job.